

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Clark County's discussion and analysis offers readers of the County's financial statements a narrative overview and analysis of the County's financial activities for the fiscal year ended December 31, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, and in the financial statements and notes to the financial statements (which immediately follow this discussion).

### **FINANCIAL HIGHLIGHTS**

- The total assets of Clark County exceeded its liabilities at December 31, 2002 by \$605 million dollars. Net assets invested in capital assets (net of depreciation and related debt) account for 68% of this amount, with a value of \$413.5 million. Of the remaining net assets, \$124 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- As of December 31, 2002, Clark County's governmental activities reported combined ending fund balances of \$502 million (an increase of 30% over 2001, which is attributed to retrospective infrastructure added, and is discussed in further detail later in this discussion). Of that amount \$330 million was invested in capital assets, \$67 million was legally restricted for specific projects or programs, and nearly \$105 million was available for spending at the government's discretion.
- Unreserved fund balance for the General Fund was slightly over seven and a half million dollars at December 31, 2002, amounting to 8.5% of total General Fund expenditures for 2002.
- Unreserved fund balance for the County Roads Fund was just over four and a half million dollars at December 31, 2002, amounting to 8.5% of total roads fund expenditures for 2002.
- Clark County's total long term debt at December 31, 2002 was nearly \$152 million, with a remaining capacity for non-voted debt of \$289 million.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to Clark County's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

#### **Government-wide Financial Statements**

There are two government-wide financial statements, which are designed to provide readers with a broad overview of Clark County's finances in a manner similar to a private-sector business. Both of the government-wide financial statements distinguish functions of Clark County that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities"). The governmental activities of Clark County include a full range of local government services provided to the public, such as law enforcement and public safety; the superior, juvenile, and district court systems; legal prosecution and indigent defense; jails and corrections; road construction and maintenance; community planning and development; parks and open space preservation; and care and welfare of the disadvantaged and mentally ill. In addition, other

general government services are provided, such as elections, property assessment, tax collection, and the issuance of permits and licenses. The business-type activities of Clark County include solid waste, sanitary sewer, and clean water management.

The statement of net assets presents information on all of Clark County's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. However, this is just one indicator of financial health of the County. Other indicators include the condition of the County's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the County.

The statement of activities presents information showing how the government's net assets changed during 2002. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received in 2002, and earned but unused vacation leave will be included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed in 2002.

The County has no separately identified component units included in the government-wide financial statements. By virtue of the County's authority to exercise influence over its operations, the Industrial Revenue Bond Corporation is reflected as a blended component unit special revenue fund and its financial data is included in governmental activities. You will find further information regarding this blended component unit in the *Summary of Significant Accounting Policies*, on the first page of the notes to the financial statements. The County has also reported its investment in one governmental joint venture: Clark Regional Emergency Services Agency (CRESA). A description of this joint venture is found in note V.D. of the notes to the financial statements.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Clark County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Clark County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Governmental Funds are used to account for most of a government's tax-supported activities. Proprietary Funds are used to account for a government's business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary Funds are used to account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

### **Governmental Funds**

The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present separate columns of financial data for the General Fund, County Roads Fund, and Mental Health Fund, all of which are considered to be major funds, based on criteria established by GASB Statement #34. (GASB Statement #34

defines a major fund as a fund whose assets, liabilities, revenues or expenditures comprise 1) at least 10% of the total dollar amount of the same category within either all government or all enterprise funds, as appropriate, and 2) at least 5% of the total dollar amount of all governmental and enterprise funds combined for the same category. The General Fund is always considered a major fund.) Data from the remaining governmental funds are combined into a single, aggregated presentation. The governmental fund financial statements can be found immediately following the government-wide financial statements. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements, outside of the basic financial statements (following the notes to the financial statements).

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements' use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, in order to facilitate this comparison.

The County maintains budgetary controls over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the biennial appropriated budget. Budgets for governmental funds are established in accordance with state law, and are adopted on a fund level, except for the General Fund, which is adopted on a department level. Personal services are budgeted by full-time positions. Capital outlays are approved both on an item by item basis and on a project basis. A budgetary comparison of revenues, expenditures, and changes in fund balances is provided for the General Fund and all special revenue and capital funds, to demonstrate compliance with the budget. Major fund budgetary variance statements are included with the basic financial statements. All non-major fund budget variance schedules follow the notes to the financial statements. Budgetary variances for the General Fund are discussed in some detail later in this section.

### **Proprietary Funds**

There are two types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its solid waste, clean water, and sewer operations. Internal Service Funds (the second type of proprietary funds) accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its vehicle fleet, election services, insurance reserves, radio and computer equipment replacement reserves, and various other administrative services. The revenues and expenses of the internal service funds that are duplicated in other funds through allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column.

Proprietary fund statements follow the governmental fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the Proprietary Fund

Statement of Net Assets to the business-type column on the Government-Wide Statement of Net Assets, you will notice that the total net assets agree, and therefore need no reconciliation. In comparing the total assets and total liabilities between the two statements, you will notice slightly different amounts. This is because the "internal balances" line on the government-wide statement combines the "due from other funds" (asset) and the "due to other funds" (liabilities) from the proprietary fund statement in a single line in the asset section of the government-wide statement.

The basic proprietary fund financial statements provide separate information on each enterprise fund, as there is only one non-major enterprise fund. All internal service funds are aggregated into a single presentation in the basic proprietary fund financial statements. Since there is only one non-major enterprise fund, there are no enterprise non-major combining statements in this document.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support Clark County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Clark County has three types of fiduciary funds: 1) Investment Trust funds (which report the portion of the County's investments which belong to other jurisdictions), 2) Private Purpose Trust funds (which report trust arrangements where the principal and interest benefit those outside of the County), and 3) Agency Funds (which are clearing accounts for assets held by Clark County in its role as custodian until the funds are allocated to the private parties, organizations, or government agencies to which they belong). The basic fiduciary fund financial statements can be found following the proprietary fund financial statements.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Statement of Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Clark County's net assets total \$605 million at December 31, 2002, as compared to \$432 million in 2001. This increase of \$173 million (40%) is attributed to capital asset additions in governmental activities, which is discussed in the following paragraph.

Clark County's total assets stand at nearly \$832 million as of December 31, 2002, an increase slightly over \$180 million from the previous year. The entire growth was due to increases in capital assets. In 2001 the County partially implemented GASB Statement #34 (Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments), reserving the option to defer adding retrospective infrastructure (such as road, bridge, and drainage systems) which was completed between the years 1980 through 2000. In 2002, the County added retrospective infrastructure (including right of way land) to the capital asset records, at a net depreciated value of nearly \$138 million. In addition, the County spent \$69 million on capital assets in 2002 (see notes IV.D., V.J., and V.K. in the notes to the financial statements for more detail.)

The following table reflects the condensed Government-Wide Statement of Net Assets.

**Clark County's Net Assets**

	Governmental Activities		Business-type Activities		Total		% Change
	2002	2001	2002	2001	2002	2001	
Current & other assets	\$ 223,195,595	\$ 231,892,897	\$ 62,979,510	\$ 64,734,654	\$ 286,175,105	\$ 296,627,551	(3.5%)
Capital assets (net of depreciation)	420,914,557	283,079,425	124,619,207	71,629,593	545,533,764	354,709,018	53.8%
Total assets	644,110,152	514,972,322	187,598,717	136,364,247	831,708,869	651,336,569	27.7%
Long term liabilities	110,629,837	103,239,298	41,140,612	44,120,704	151,770,449	147,360,002	3.0%
Other liabilities	31,476,708	26,181,995	43,515,984	45,176,196	74,992,692	71,358,191	5.1%
Total liabilities	142,106,545	129,421,293	84,656,596	89,296,900	226,763,141	218,718,193	3.7%
Net Assets:							
Invested in capital assets, net of related debt	330,074,528	179,840,127	83,478,595	27,604,961	413,553,123	207,445,088	99.4%
Restricted	67,301,952	88,318,651	0	0	67,301,952	88,318,651	(23.8%)
Unrestricted	104,627,127	117,392,251	19,463,526	19,462,386	124,090,653	136,854,637	(9.3%)
Total net assets	\$ 502,003,607	\$ 385,551,029	\$ 102,942,121	\$ 47,067,347	\$ 604,945,728	\$ 432,618,376	39.8%

Of the \$286 million in current and other assets (compared to \$296 million at December 31, 2001), \$137 million is in cash and cash equivalents (down from \$151 million in 2001), \$146 million is in accounts and notes receivable (up from \$141 million in 2001), and the remaining \$3 million is spread among miscellaneous assets. At December 31, 2002, cash and cash equivalents accounted for 48% (compared to 62% in 2001) of current and other assets, while accounts and notes receivable accounted for 51% (compared to 38% in 2001). The decrease in cash and cash equivalents is mainly due to the spending of bond proceeds in the Campus Development Capital Fund for construction on the new public service building, as well as the increase in receivables at the end of 2002. Due to the County's implementation of new financial accounting system software on November 1, 2002, customer billings were recorded later than usual in November and December, resulting in a larger percentage of payments coming in after the end of the year.

At December 31, 2002, the County had outstanding liabilities of \$227 million (an increase from \$219 Million in 2001), with slightly over \$152 million in long term liabilities (up from \$147 million in 2001). Bonds payable decreased, while there were increases in compensated absences due and amounts due to other governments (which included new issuance of Public Works Trust Fund loans in the amount of \$3.6 million for road projects). Of the long term liabilities, \$7 million is due within a year, with the remainder due over an extended period of time. Refer to the notes to the financial statements (note IV.H.) for a more in depth discussion of long term debt.

At December 31, 2002, other liabilities included \$44 million in deferred revenue and \$25 million in accounts payable and accrued liabilities, combined (no change from December 31, 2001 in these categories). Deposits payable to customers increased by two million dollars in 2002 (from \$4 million to \$6 million), due to additional retainage held in capital project funds for the new public service building.

The largest portion of the County's net assets (68%) reflects its investment in capital, less any outstanding related debt used to acquire those assets. The County's capital assets are used to provide services to citizens. Consequently, investments in capital are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In

addition, 11% of the County's net assets are subject to external restrictions on how they may be used (restricted by the Revised Code of the State of Washington or by contractual agreements with parties outside of the County). The remaining balance of \$124 million, (unrestricted net assets, equal to 21% of total net assets), represents the amount that may be used to meet the County's ongoing obligations. This amount is down by \$12.7 million from December 31, 2001 and can be accounted for, in part, by the \$10.5 million decrease in current assets at December 31, 2002.

At December 31, 2002, Clark County reports positive balances in all categories of net assets for the government as a whole, as well as for governmental activities. Business-type activities report positive balances in both capital and unrestricted assets, with no restricted assets.

### Statement of Changes in Net Assets

As noted earlier, the County's total net assets increased by \$173 million in 2002. A restatement of net assets as of January 1, together with prior period adjustments, account for a \$138 million increase in capital assets, relating to retrospective infrastructure, as discussed in the Statement of Net Assets section, above. Key elements in changes in net assets are shown in the following table.

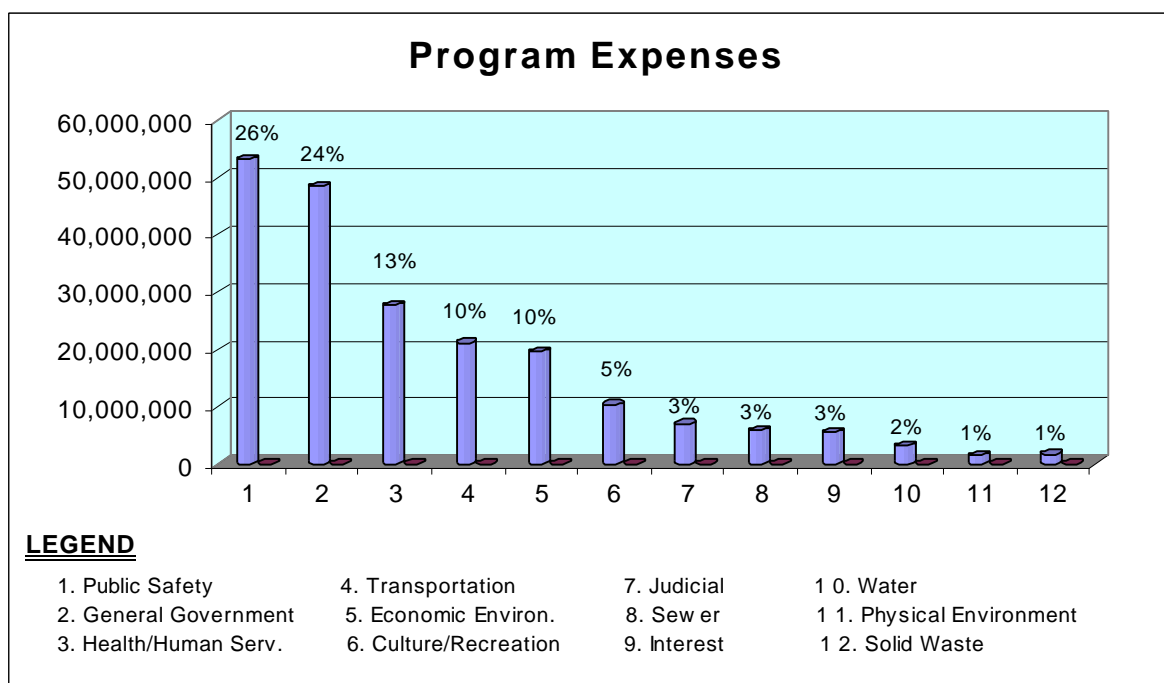
<b>Clark County Changes in Net Assets</b>						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2002	2001	2002	2001	2002	2001
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for services	50,761,389	43,349,672	12,325,617	12,718,337	63,087,006	56,068,009
Operating Grants and contributions	47,490,808	49,115,050	646,768	353,449	48,137,576	49,468,499
Capital Grants and contributions	15,986,460	26,842,990	793,555	2,231	16,780,015	26,845,221
<i>General revenues:</i>						
Taxes	103,919,015	98,829,210	0	0	103,919,015	98,829,210
Gain/(loss) on sale of assets	1,059,128	1,776,950	(558,223)	(3,013,686)	500,905	(1,236,736)
Interest earnings on investments	5,676,562	8,815,630	512,376	1,219,385	6,188,938	10,035,015
Total revenues	224,893,362	228,729,502	13,720,093	11,279,716	238,613,455	240,009,218
<b>Program Expenses:</b>						
General government	48,519,095	37,724,191	0	0	48,519,095	37,724,191
Public safety	53,117,057	49,887,576	0	0	53,117,057	49,887,576
Judicial	6,988,253	6,624,707	0	0	6,988,253	6,624,707
Physical environment	1,394,769	1,884,227	0	0	1,394,769	1,884,227
Transportation	21,129,634	20,028,724			21,129,634	20,028,724
Economic environment	19,620,723	16,950,324	0	0	19,620,723	16,950,324
Health and human services	27,644,982	25,859,689	0	0	27,644,982	25,859,689
Culture & recreation	10,348,428	7,854,481	0	0	10,348,428	7,854,481
Solid Waste	0	0	1,703,894	1,417,288	1,703,894	1,417,288
Water	0	0	3,077,522	2,497,649	3,077,522	2,497,649
Sewer	0	0	5,813,774	5,872,045	5,813,774	5,872,045
Interest on long term debt	5,500,034	5,183,340		0	5,500,034	5,183,340
Total expenses	194,262,975	171,997,259	10,595,190	9,786,982	204,858,165	181,784,241
Excess (deficiency) of revenues over (under) expenses	30,630,387	56,732,243	3,124,903	1,492,734	33,755,290	58,224,977
Transfers	285,495	707,351	(285,495)	(707,351)	0	0
Change in Net Assets	30,915,882	57,439,594	2,839,408	785,383	33,755,290	58,224,977
Net assets as of January 1 - restated for change in accounting principal	470,498,162	327,714,417	47,067,347	46,281,964	517,565,509	373,996,381
Prior period adjustment	589,563	397,018	53,035,366	0	53,624,929	397,018
Net assets as of December 31	502,003,607	385,551,029	102,942,121	47,067,347	604,945,728	432,618,376

Total revenues for Clark County, at \$238.6 million in 2002, decreased only slightly (\$1.4 million) from 2001 total revenues. Governmental activities provided nearly \$225 million (94%), while business-type activities added just under \$14 million. The split changed only slightly from 2001, when governmental activities accounted for 95% of total revenues.

Within governmental activities, tax revenue increased by five million dollars and accounted for 46% of total revenue sources (up from 43% in 2001). The growth in housing and population within the County (which has been strong over the last several years) continues to result in increased property tax and sales tax revenue. During this same period, revenue provided by capital grants and contributions (mostly for transportation projects) decreased by \$11 million in 2002, while all grants and contributions accounted for 28% of total governmental revenues (down from 33% in 2001). Charges for services increased by nearly seven and a half million dollars in 2002 and accounted for 23% of revenues. County transportation and information technology services to other entities accounted for three million dollars of the seven million dollar increase. Services related to the building and home sales industry (permitting, plan review, recording) accounted for another two million dollars, with additional increases being spread among miscellaneous governmental services and fees. The remaining three percent of total governmental revenues were provided by interest income, and gain on the sale of assets.

Of the \$13.7 million in business-type program revenues, charges for services in 2002 remained constant from 2001 and provided 90% of total business-type revenues. Revenues provided by grants and contributions increased from \$355,680 in 2001 to \$1,440,323 in 2002, which included capital contributions of stormwater facilities to the Clean Water Fund in the amount of \$791,092. The half million dollar loss on assets is a result of the City of Vancouver taking responsibility for a larger portion of a stormwater utility within the County, which included a transfer of stormwater assets.

Total County expenses for the year totaled nearly \$205 million, an increase of \$23 million from 2001 (13% increase). Expenses for business-type activities increased by slightly over \$800,000 in 2001, while the remainder of the increase came in governmental activities expenses. Governmental activities accounted for just over \$194 million (95%), with public safety and general government programs accounting for 52% of total governmental expenses. Of the \$10.6 million in business-type expenses, 55% are associated with the sanitary sewer program. Following is a graph which illustrates by program where funds were spent in 2002.



Following is a list of items that contributed to the increased governmental expenses in 2002.

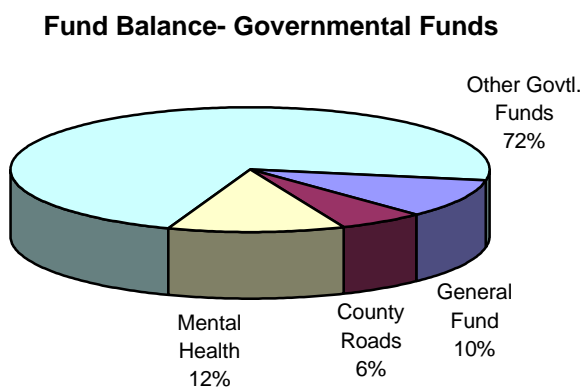
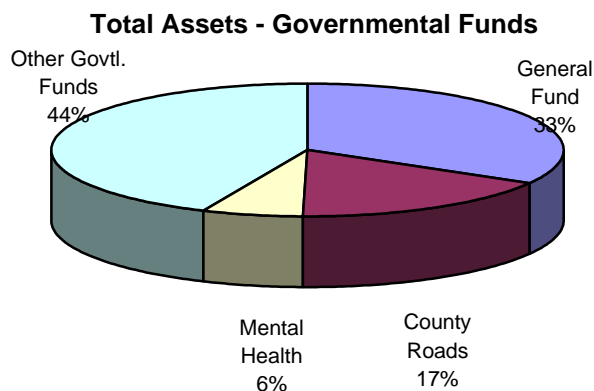
- Depreciation expense more than doubled, rising from five million dollars in 2001 to eleven million dollars in 2002, which can be attributed to the addition of infrastructure.
- The increase in information technology services supplied to other entities, as mentioned above in the revenue section, had an impact on personal service expenses.
- County employees were involved in designing customizations, testing, implementing, documenting, training, and being trained on the new financial accounting system, which the County purchased in 2001. Although many of these costs were included in the capital asset cost, there were personnel costs, supplies, and other expenses related to this project that were reported in the General Fund.
- The construction of the new public service building and parking garage resulted in a physical move of approximately 600 employees in January 2003 from the County Courthouse and other surrounding buildings. Personal service expenses that were associated with managing the new parking garage and planning the move, along with miscellaneous supplies connected to this project were expensed in the general government activities.
- Negotiations for labor contracts which ended in 2001 were finalized in 2002, at which time retroactive wages and benefits were paid.

## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, Clark County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Following are financial analysis of the County's governmental and proprietary funds.

### Governmental Funds Balance Sheet Analysis

The General Fund, County Roads Fund, and Mental Health Fund made up the County's major funds in 2002. Together these three funds account for 56% of total governmental fund assets and 28% of total governmental fund balance. The make-up of major funds has changed since 2001. The Mental Health Fund was not considered a major fund in 2001 because it did not meet the criteria set forth in GASB Statement #34. (This criteria is explained under the heading of Governmental Funds, which appears previously in this management's discussion and analysis.) In 2001 the Campus Development Capital Fund was included as a major fund as a result of capital bond proceeds held in cash while the campus development project (including the new public service building) was underway. In 2002 a significant amount of the bond proceeds were spent, which resulted in the Campus Development Capital Fund no longer meeting the requirements of a major fund.



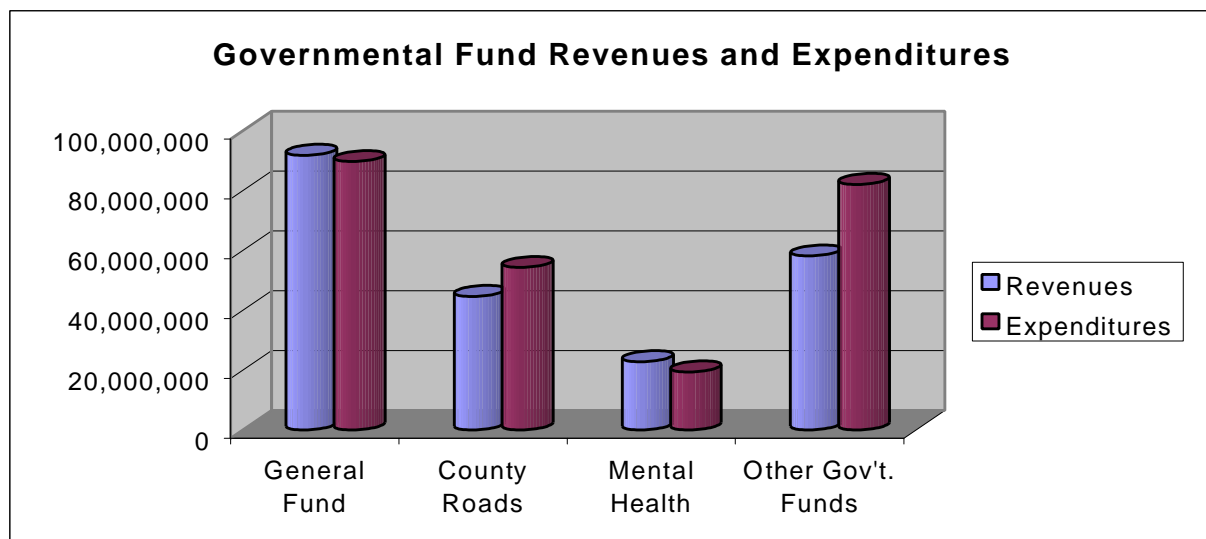


The focus of Clark County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of December 31, 2002, the County's governmental funds reported combined ending fund balances of slightly over \$84 million, of which nearly \$81 million (96%) is unreserved and available for spending within the designated funds. The \$84 million compares to combined ending fund balances of \$107 million last year, a decrease of \$23 million that can be mostly attributed to a \$21 million decrease in the Campus Development Capital Fund, due to near completion of the originally funded portion of the campus development project. Reserved fund balance in the amount of three million dollars is not available for new spending, as it has already been committed to prepaid expenditures, interfund advances, and debt service.

The General Fund is the chief operating fund of Clark County. On December 31, 2002, unreserved fund balance of the General Fund was nearly \$7.6 million (down \$416,492 from 2001), while total fund balance was nearly \$8.5 million (down \$531,745 from 2001). Total assets in the General Fund amounted to \$71.5 million, accounting for 33% of total governmental fund assets. General Fund assets increased by nearly five million dollars from 2001. Cash and deposits increased by \$2.2 million and taxes receivable increased by \$2.5 million during 2002.

### Governmental Funds Revenue/Expenditure Analysis

The following chart shows the revenue and expenditure amounts for the year ended December 31, 2002 for the three major governmental funds and for all other governmental funds.



The revenue indicators in the chart do not include one time only financing sources, such as proceeds from new debt or the sale of assets, or interfund transfers. Total revenues for governmental funds in 2002 were fairly consistent with 2001, decreasing slightly less than one million dollars (from \$218M to \$217M), while total expenditures increased by \$18 million in 2002 (from \$227M to \$245M). Capital projects accounted for \$9 million in increased expenditures, the General Fund experienced a \$5 million increase, with the remainder of the increase spread among special revenue funds. The General Fund and the County Roads Fund together account for 63% of all governmental fund revenue and 59% of the expenditures.

The General Fund's net change in fund balance in 2002 was slightly less than 6% (slightly over one half million dollar decrease). The net change in fund balance for the County Roads Fund was a decrease of three million dollars. Although the fund experienced a decrease of nearly \$12 million in grant revenues from 2001 to 2002, increased tax revenue and charges for services revenue, along with decreased expenditures, helped to lessen the impact of the grant revenue loss. Net change in fund balance for capital project funds was a decrease of \$22.5 million, given that a significant portion of bond proceeds received in 2001 were spent in 2002 and no new bonds were transacted in the capital project funds during 2002. The Mental Health Fund had an increase in fund balance of \$3.4 million, as a result of receiving grant revenues in excess of expenditures during 2002. Governmental funds had an overall decrease in fund balance of \$23 million in 2002.

### Enterprise Funds Net Assets Analysis

Clark County has three enterprise funds, two of which (Sanitary Sewer and Clean Water) are considered major funds. The following table reflects the Enterprise Funds Statement of Net Assets for the year ending December 31, 2002.

Clark County Washington								
Enterprise Funds - Statement of Net Assets								
Assets	Maior				Non-Maior		Total	
	Sanitary Sewer		Clean Water		Solid Waste			
	2002	2001	2002	2001	2002	2001	2002	2001
Current assets								
Cash and cash equivalent	\$ 7,819,195	\$ 8,206,217	\$ 6,709,978	\$ 4,427,932	\$5,999,181	\$ 6,856,577	\$ 20,528,354	\$19,490,726
Other current assets	589,887	558,361	1,516,776	550,037	628,041	152,638	2,734,704	1,261,036
Total current assets	8,409,082	8,764,578	8,226,754	4,977,969	6,627,222	7,009,215	23,263,058	20,751,762
Noncurrent assets								
Contracts receivable	42,195,494	44,486,643	0	0	0	0	42,195,494	44,486,643
Capital assets	76,151,805	74,652,059	59,769,263	2,430,254	1,168,826	1,117,629	137,089,894	78,199,942
Less accumulated depreciation	(7,477,882)	(5,956,259)	(4,610,584)	(252,533)	(382,221)	(361,557)	(12,470,687)	(6,570,349)
Total noncurrent assets	110,869,417	113,182,443	55,158,679	2,177,721	786,605	756,072	166,814,701	116,116,236
Total assets	119,278,499	121,947,021	63,385,433	7,155,690	7,413,827	7,765,287	190,077,759	136,867,998
Liabilities								
Current liabilities								
Accts. payable and accrued liabilities	1,368,194	510,951	1,181,168	493,555	368,170	139,395	2,917,532	1,143,901
Bonds, notes and loans payable	2,565,047	2,458,825	0	0	190,000	180,000	2,755,047	2,638,825
Total current liabilities	3,933,241	2,969,776	1,181,168	493,555	558,170	319,395	5,672,579	3,782,726
Noncurrent liabilities								
Deferred revenue - HDSI	42,195,494	44,486,643	0	0	0	0	42,195,494	44,486,643
Compensated absences	48,210	49,403	57,519	96,072	27,482	0	133,211	145,475
Advance due to other funds	0	0	882,000	0	0	0	882,000	0
Advance due to other governments	2,163,613	2,450,498	0	0	0	0	2,163,613	2,450,498
Long Term Debt Payable	36,088,741	37,835,309	0	0	0	1,100,000	36,088,741	38,935,309
Total noncurrent liabilities	80,496,058	84,821,853	939,519	96,072	27,482	1,100,000	81,463,059	86,017,925
Total liabilities	84,429,299	87,791,629	2,120,687	589,627	585,652	1,419,395	87,135,638	89,800,651
Net Assets								
Invested in capital assets, net of related debt	27,856,522	25,951,168	55,158,679	2,177,721	786,605	756,072	83,801,806	28,884,961
Unrestricted	6,992,678	8,204,224	6,106,067	4,388,342	6,041,570	5,589,820	19,140,315	18,182,386
Total net assets	\$ 34,849,200	\$34,155,392	\$61,264,746	\$ 6,566,063	\$6,828,175	\$ 6,345,892	\$ 102,942,121	\$47,067,347

The Sanitary Sewer Fund accounts for 63% of total assets and 33% of net assets for all enterprise funds at December 31, 2002. The activities of this fund involve maintenance and operation of the Salmon Creek Wastewater Treatment Plant. The Clean Water Fund (which accounts for 33% of total assets and 56% of net assets at December 31, 2002) realized a \$53 million increase in capital assets as a result of stormwater facilities and associated land that were contributed by developers and added as retrospective infrastructure, as required under GASB Statement #34. The assets were added as a prior period adjustment, since infrastructure has always been required to be reported in enterprise funds. However, the land and infrastructure were originally owned by a special revenue fund that was closed in 2002, and therefore the infrastructure and associated land were not reported prior to the implementation of GASB Statement #34. This increase in capital assets led to the fund meeting the major fund requirements for the first time.

Although the Sanitary Sewer Fund has \$56 million more in total assets than the Clean Water Fund, the Clean Water Fund has only two million dollars in liabilities (as compared to over \$84 million in liabilities in the Sanitary Sewer Fund), which accounts for the Clean Water Fund having the larger share of enterprise fund net assets.

As of December 31, 2002, the County's enterprise funds reported combined net assets of \$103 million, an increase of \$56 million over 2001, of which \$53 million is accounted for by the prior period adjustment referred to in the preceding paragraph. Of the \$103 million, nearly \$84 million (82%) of net assets is accounted for by investment in capital assets, net of related debt. The remainder of \$19 million (no significant change from 2001) is unrestricted and available for spending in accordance with the needs of the County.

The Sanitary Sewer and Solid Waste Funds had no significant changes in assets, liabilities, or net assets from 2001 to 2002. The Clean Water Fund had changes in cash, capital assets, current liabilities, advance due to other funds, and net assets, as a result of transfers from the special revenue and capital project water quality funds.

### **Enterprise Funds Revenue and Expense Analysis**

Of the total revenues for enterprise funds in 2002, the Sanitary Sewer Fund contributed 48%, the Clean Water Fund contributed 35%, and the Solid Waste Fund contributed 17%. Total revenues in 2002 were down approximately \$800,000 from 2001. Interest and investment revenue was down approximately \$700,000 from 2001, due to the record low interest rates the nation experienced in 2002. Charges for services accounted for over 91% of 2002 revenues, at \$12.3 million (down slightly from \$12.6 million in 2001).

At \$11 million, total expenses are down from 2001 by slightly over \$1.6 million. However, when you disregard the loss on disposition of capital assets and the interest expense categories, and consider only the operating expenses, there is an increase in operating expenses of slightly over \$900,000 (a 13% increase). The largest increase (\$574,377) is in contractual services and is due to increases in professional consultant and temporary employee expenses across all funds.

The following table reflects the Enterprise Funds revenues and expenses for the year ending December 31, 2002.

Clark County Washington								
Enterprise Funds - Revenues and Expenses								
	Major				Non-Major		Total	
	Sanitary Sewer		Clean Water		Solid Waste			
	2002	2001	2002	2001	2002	2001	2002	2001
REVENUES								
Charges for services	6,374,716	6,933,871	4,468,759	4,269,927	1,428,757	1,403,701	12,272,232	12,607,499
Interest and investment revenue	128,579	667,221	159,077	173,473	224,720	378,691	512,376	1,219,385
Operating grant revenue	0	0	80,571	2,003	566,197	351,446	646,768	353,449
Miscellaneous revenue	5,287	98,140	45,595		2,503	12,698	53,385	110,838
Total revenues	6,508,582	7,699,232	4,754,002	4,445,403	2,222,177	2,146,536	13,484,761	14,291,171
EXPENSES								
Personal services	800,368	705,805	772,924	644,431	556,339	583,416	2,129,631	1,933,652
Contractual services	599,220	493,929	328,321	105,415	745,337	499,157	1,672,878	1,098,501
Other supplies/expenses	493,731	492,150	1,834,331	1,674,544	328,979	251,519	2,657,041	2,418,213
Depreciation	1,539,009	1,682,045	141,946	73,259	20,664	20,104	1,701,619	1,775,408
(Gain)/Loss on disposition of capital assets	3,463	2,674,359	554,760	339,327	0		558,223	3,013,686
Interest expense	2,381,446	2,498,116	0		52,575	63,092	2,434,021	2,561,208
Total expenses	5,817,237	8,546,404	3,632,282	2,836,976	1,703,894	1,417,288	11,153,413	12,800,668
Income (loss) before transfers	691,345	(847,172)	1,121,720	1,608,427	518,283	729,248	2,331,348	1,490,503
Capital contributions and interfund transfers	2,463	(405,679)	541,597	(278,642)	(36,000)	(20,799)	508,060	(705,120)
Change in net assets	693,808	(1,252,851)	1,663,317	1,329,785	482,283	708,449	2,839,408	785,383
Net assets - Jan 1	34,155,392	35,408,243	6,566,063	5,236,278	6,345,892	5,637,443	47,067,347	46,281,964
Prior period adjustment	0	0	53,035,366	0	0	0	53,035,366	0
Net assets -Jan 1- restated	34,155,392	35,408,243	59,601,429	5,236,278	6,345,892	5,637,443	100,102,713	46,281,964
Net assets - Dec 31	34,849,200	34,155,392	61,264,746	6,566,063	6,828,175	6,345,892	102,942,121	47,067,347

Total expenses for the year ran 83% of total revenues, resulting in a positive change in net assets of nearly three million dollars for the enterprise funds. Each of the three enterprise funds realized a positive change in net assets in 2002.

## GENERAL FUND BUDGETARY HIGHLIGHTS

### General Fund Changes in Budget

Differences between the original General Fund budget and the final amended budget for total revenues and total expenditures were minimal. Budgeted revenues decreased by less than one percent from the original budget while budgeted expenditures increased by 3.8%. Interfund transfers show larger changes between the original and final budget, with transfers out increasing 40% from the original budget amount.

The largest change in the revenue budget was in miscellaneous revenues. The \$2.2 million decrease in interest revenues reflected current economic conditions related to the record low interest rates. The only other significant change in the revenue budget is for charges for services. A reallocation from intergovernmental revenues to charges for services (related to work crew labor charges) accounts for \$874,000 in increases, while an additional \$339,000 in increases is in recording fees and imaging services, as a result of the the active real estate market and refinancing activites in the County. Some other large increases in the charges for services budget were \$276,000 for information technology fees from the City of Vancouver and \$214,000 for law enforcement and court related service charges.

The following table shows the changes between the original and the final biennial General Fund budget as of December 31, 2002.

**Clark County Washington**  
**General Fund Changes in Budget**

	Original 2001/2002 Budget	Final 2001/2002 Budget	Change Positive (Negative)
<b>Revenues:</b>			
Taxes	\$ 120,017,663	\$ 120,047,663	\$ 30,000
Licenses & permits	1,573,500	1,483,500	(90,000)
Intergovernmental	22,463,403	22,642,278	178,875
Charges for services	22,767,087	23,992,827	1,225,740
Fines & forfeitures	5,929,227	5,929,227	0
Miscellaneous	7,395,616	5,240,903	(2,154,713)
Total revenues	180,146,496	179,336,398	(810,098)
<b>Expenditures</b>			
General government	67,253,531	63,611,412	3,642,119
Public safety	83,969,786	91,483,303	(7,513,517)
Judicial	12,440,576	13,616,165	(1,175,589)
Physical environment	92,894	102,275	(9,381)
Transportation	85,907	135,107	(49,200)
Economic environment	149,000	171,000	(22,000)
Health and human services	3,771,860	3,840,551	(68,691)
Culture and recreation	6,866,020	7,133,418	(267,398)
Debt service-principal	26,794	1,160,794	(1,134,000)
Debt service-interest	0	123,000	(123,000)
Total expenditures	174,656,368	181,377,025	(6,720,657)
Excess (deficiency) of revenues over expenditures	5,490,128	(2,040,627)	(7,530,755)
Sale of capital assets	827,936	827,936	0
Transfers in	14,727,986	17,178,323	2,450,337
Transfers out	(21,030,426)	(29,508,521)	(8,478,095)
Excess (deficiency) of revenues other sources over expenditures	15,624	(13,542,889)	(13,558,513)
Fund Balance as of January 1	0	15,474,341	15,474,341
Fund balance as of December 31	\$ 15,624	\$ 1,931,452	\$ 1,915,828

Within the intergovernmental revenue category, the decrease of \$874,000 that was due to the reallocation mentioned above was offset by a budget increase in revenues of slightly over one million dollars. The budget increases were due to additional grants and other funding received, including USDA Food Program (\$100,000), Department of Justice grants (\$351,597), State Criminal Alien Assistance Program (\$389,637), state funding to supplement jury fees (\$90,000), and a juvenile criminal justice grant (\$103,000).

The final General Fund budget shows a budget increase in expenditures in all programs except for general government which shows a decrease. The budget decrease of \$3.6 million in general government expenditures is a result of budgeted contingency expenditures reallocated to public safety programs and judicial programs, and transfers to other funds.

The largest increase in the expenditures budget is in public safety. A listing of the significant changes in the public safety expenditure budget follows:

- A redesign of the Special Intervention Program that serves juvenile offenders accounts for approximately one million dollars, and was funded by a reallocation of budgeted expenditures from mental health funds and a federal grant.
- A \$4.3 million increase covers pay differentials associated with twelve hour shifts, overtime, and negotiated pay increases for sheriff and custody personnel, and also includes increased funding for reserve deputy pay.
- An increase in insurance rates on public safety vehicles accounts for \$91,000.
- A \$444,000 increase in the budget is for additional security systems and other equipment.
- An additional \$152,000 was budgeted for medical and dental service for inmates.

There were also additional expenditures budgeted as a result of unanticipated grant proceeds. The increases in public safety expenditures were funded by General Fund fund balance, budgeted contingency funds, transfers from public safety special revenue and capital funds, and unanticipated grant proceeds.

The budgeted expenditure increases in the judicial program included \$327,000 for salary, overtime, and medical benefits, \$558,000 for indigent defense, \$213,392 for interpreter services, and \$90,000 for jury fees. A significant portion of the interpreter services increase was funded by additional state grants, with the other increases being funded by General Fund contingency funds.

Transfers out increased by \$8.5 million, mainly for one time capital outlay (for parks, information technology, geographic information systems, and developer permitting systems), and operating subsidies to planning and code and central support services. Of the \$2.4 million budget increase to transfers in, two million dollars resulted from a one time transfer from the General Liability Insurance Fund, which was moved to the General Fund in 2002.

### **General Fund Budget to Actual**

The County adopts a biennial budget, with 2002 being the end of the current budget cycle. Total revenues ended at nearly three million dollars over budget at the end of 2002, while total expenditures came in at approximately seven million dollars under budget. Transfers in were at \$1.4 million under the budgeted amount, mainly as a result of one time transfers for public safety and information services expenditures that did not materialize. Also, a transfer for a juvenile intervention program from the Mental Health Fund was recorded as interdepartmental expenditure and revenue, rather than a transfer. The end result of the budget variances is a positive change of slightly over nine million dollars in excess budgeted revenues over budgeted expenditures.

The following table shows the variance between the final 2001/2002 General Fund budget and the actual revenues and expenditures for the biennium.

**Clark County Washington**  
**General Fund Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget (GAAP Basis) and Actual**

	Final 2001/2002 Budget	Actual Biennium-To- Date	Variance with Final Budget Positive / (Negative)
<b>Revenues:</b>			
Taxes	\$ 120,047,663	\$ 118,567,674	\$ (1,479,989)
Licenses & permits	1,483,500	2,006,468	522,968
Intergovernmental	22,642,278	22,866,998	224,720
Charges for services	23,992,827	26,359,473	2,366,646
Fines & forfeitures	5,929,227	5,916,295	(12,932)
Miscellaneous	5,240,903	6,461,343	1,220,440
Total revenues	179,336,398	182,178,251	2,841,853
<b>Expenditures</b>			
General government	63,611,412	61,690,311	1,921,101
Public safety	91,483,303	87,856,975	3,626,328
Judicial	13,616,165	13,536,578	79,587
Physical environment	102,275	102,275	0
Transportation	135,107	99,814	35,293
Economic environment	171,000	143,095	27,905
Health and human services	3,840,551	3,768,846	71,705
Culture and recreation	7,133,418	6,748,933	384,485
Debt service-principal	1,160,794	0	1,160,794
Debt service-interest	123,000	95,927	27,073
Total expenditures	181,377,025	174,042,754	7,334,271
Excess (deficiency) of revenues over expenditures	(2,040,627)	8,135,497	10,176,124
Sale of capital assets	827,936	1,141,656	313,720
Transfers in	17,178,323	15,738,399	(1,439,924)
Transfers out	(29,508,521)	(29,323,627)	184,894
Excess (deficiency) of revenues other sources over expenditures	(13,542,889)	(4,308,075)	9,234,814
Fund Balance as of January 1, 2001	15,474,341	12,796,935	(2,677,406)
Fund balance as of December 31, 2002	\$ 1,931,452	\$ 8,488,860	\$ 6,557,408

Licenses and permits revenue ran 35% over budget due to continuing growth in the County's housing market, while taxes collected ran slightly over one percent under budget. Charges for services revenues ended up at 10% over budget, partly due to increased contracts with other entities for information technology services.

Public safety and general government variances from budgeted expenditures made up 76% of the total expenditure variance. Public safety came in at four percent under budget, in the areas of juvenile (\$870,000 under budget, mostly in the area of temporary services) and intergovernmental payments (two million dollars under budget on payments to the City of Vancouver, which are estimated based on past payments and are reconciled at the end of each year). General government came in at three percent under budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

Clark County's total investment in capital assets, including construction in progress, for its governmental and business type activities as of December 31, 2002, amounts to nearly \$546 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, road and bridge systems, stormwater facilities, fish passages, trails, and construction in progress on buildings and systems. Major capital asset events during the current fiscal year included the following:

- A variety of projects for both new street construction and for expansion of existing streets were ongoing during the year. Resources spent on street projects completed in 2002 amounted to \$10.7 million, while another \$22.1 million was spent in 2002 on projects that will continue into 2003.
- Construction of a new public service building and parking structure, as part of the downtown campus development project, continued in 2002 with accumulated expenses of \$22.2 million during the year.
- In the fall of 2001, the County began implementation of a new financial management system that was completed in the fall of 2002. The capital cost in 2002 was \$1.7 million.
- Vehicles, street equipment, and trailers were added to the fleet as either new equipment or replacements during the year, at a cost of \$2.1 million.
- Park acquisitions and improvements amounting to \$4.6 million in 2002.
- Infrastructure acquired between the years 1980 through 2000 were added to the County's capital asset system in 2002 (in accordance with GASB Statement #34, as referred to previously in this management's discussion and analysis), in the amount of \$138 million.

Additional information on Clark County's capital assets can be found in note IV.4. of this report.

### **Long-Term Debt**

At December 31, 2002, Clark County had total bonded debt outstanding of \$133 million (governmental activities had bonds payable of \$95 million, while business-type activities had \$38 million in bonds payable). Of this amount, \$408,954 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The full faith and credit of the government back the remainder. Revenue bonds (bonds secured solely by specified revenue sources) represent \$38 million (net after discounts and premiums) of the County's bonded debt, while \$95 million is comprised of general obligation bonds.

The only new bonded debt in 2002 was due to a \$2.8 million refunding, while bond retirements in 2002 were slightly over ten million dollars.

The County's remaining capacity for non-voted debt at December 31, 2002 was approximately \$289 million (an increase from \$262 million at December 31, 2001). Clark County maintains an "Aa3" rating from Moody's for general obligation debt. Additional information on the County's long-term debt can be found in note IV.8. .



## **ECONOMIC FACTORS**

There have been a series of voter initiatives over the last several years, as well as both State of Washington and Federal legal changes that will have an impact on future finances of the County. A listing of conditions and decisions that may significantly affect the future financial condition of the County follows:

- Initiative 747 which was approved by voters in Washington on November 6, 2001, limits the annual property tax increase to 1% or the Implicit Price Deflator (IPD), whichever is less. An increase above 1% is allowed only with voter approval. The 1% limit excludes increases due to the addition of new construction and property value increases.
- Senate Bill 6211 took effect in 1997. This bill allows counties to recoup costs for regional services for misdemeanor offenders. This includes the costs associated with District Court, Corrections, and Jail Services. In 2002, the County recouped about \$4.8 million.
- In November 1999, the voters in Washington approved Initiative 695, which eliminated the annual motor vehicle excise tax and replaced it with a \$30 annual fee on motor vehicles. As a result, a portion of funding the County receives from the State for law and justice services was reduced by approximately \$3.1 million. The County received partial funding of approximately \$1.1 million annually in 2000 through 2002, and anticipates annual installments of approximately \$680,000 in 2003 and 2004, after which time the partial funding will most likely discontinue.
- The listing of several species of salmonoids under the Endangered Species Act has monetary impact on the County. Ordinance revisions and changes in ongoing operations to protect fish and habitat have an associated expense. To date, restoration projects have been funded both by county contributions and outside revenues.
- Requirements of the National Pollutant Discharge Elimination System (NPDES) permit are expected to cost \$12 million for stormwater management over the next several years, to help stop the discharge of pollutants into our lakes, streams and aquifers. Funding for this stormwater system comes from user fees that began in 2000.

### **Requests for Information**

This financial report is designed to provide a general overview of Clark County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor's Office, Clark County, 1300 Franklin Street, P.O. Box 5000, Vancouver, WA, 98666-5000.